

REDACTED ACTUARIAL MEMORANDUM and CERTIFICATION
for
TIME INSURANCE COMPANY
in
Kentucky
on
Form TIM16.POL.KY

The purpose of this annual rate filing is to set the index rate and any other applicable adjustments to the index rate for January 1st, 2016, as set forth in the Affordable Care Act (ACA) requirements, and to demonstrate the reasonableness of benefits in relationship to premiums. This rate filing is not intended for other purposes.

Assurant Health is the marketing name of the legal entities Time Insurance Company and John Alden Life Insurance Company. Assurant Health will administer, issue, and insure this block. These legal entities offer identical products with the same rates, administrative systems, and processes.

1. General Information:

- | | |
|-----------------------------------|--|
| a. Insurance Company Name | Time Insurance Company |
| b. State | Kentucky |
| c. HIOS Issuer ID | 19503 |
| d. Market | Individual Major Medical |
| e. Effective Dates | January 1, 2016 – December 31, 2016 |
| f. Primary Contact Name | Reona Oishi |
| g. Primary Contact Phone # | 414-299-6996 |
| h. Primary Contact E-mail Address | Reona.Oishi@Assurant.com |
- i. General Policy Description:
This rate filing is for non-grandfathered individual major medical plans which cover the Essential Health Benefits (EHB) as required under the Affordable Care Act (ACA). These plans are guaranteed issue and guaranteed renewable as defined under the ACA and HIPAA. Plans are marketed through general agencies, brokers, wholesale arrangements, and direct-to-consumer. In 2016, Assurant Health will only sell plans outside of the public health exchanges in this state. Coverage beyond age 65 will be secondary to Medicare. Premiums are on an attained age basis and will increase with age. Premiums also vary by plan design, tobacco status and geographic area. In 2016, only the oldest three dependents under age 21 will be charged a premium rate for a given policy.

2. Proposed Rate Increase:

This is a new product filing and therefore the rate increase is 0%. Effective 1/1/2016, Assurant Health will offer a new portfolio of plans in the Individual market. Existing metallic customers will be discontinued from their current contract and moved to this new contract upon their plan year beginning on 1/1/2016. Appendix A shows the development of base rates for this new

product. The remaining sections of the memorandum detail the assumptions we used to develop rates.

Relative to our existing metallic block, the average rate increase for this state is [REDACTED]. This increase excludes attained age increases. The rate increase does vary by plan. These adjustments are described in further detail in section 14 of this memorandum.

It is important to note that we continue to offer a broad PPO network product. We strongly believe our PPO product is valued by a large customer segment in the individual market. These customers value the ability to utilize the doctors and hospitals of their choosing, without the added requirement to go through a gatekeeper to direct their care.

Reasons for Rate Change: The following list is a brief description of the significant factors driving the proposed rate change. More detailed descriptions of these factors are included later in this memorandum.

- 1.) Medical Trend: Our medical trend accounts for the effects on future claims due to inflation, advancing medical technology and techniques, and increased utilization and cost shifting.
- 2.) Market Morbidity: The average actual morbidity of the 2014 market vs. our prior priced for expectations and the relationship of our expected risk score vs. our claims experience.
- 3.) Reinsurance: The ACA reinsurance program for 2015 will reimburse carriers 50% of claim costs between \$45,000 and \$250,000. In 2016, the reimbursement will change to 50% of claim costs between \$90,000 and \$250,000.

The rate increases vary by product primarily due to plan design differences by metal level and potential differences in PPO network factors. These adjustments are warranted as they result in actuarially appropriate rates that reflect the true cost differences between the plans.

Please note that our rating methodology differs from that outlined in the Unified Rate Review Template. Rather, the Unified Rate Review Template represents information required by Federal Regulation to facilitate review. The following sections note any differences between the Unified Rate Review Template and the pricing methodology we used to develop rates. Please refer to Appendix A for our rate development methodology.

3. Experience Period Premium and Claims

We prepared the Unified Rate Review Template using state and legal entity specific non-grandfathered experience in order to comply with Department of Health and Human Services (HHS) requirements. For the purpose of estimating the average risk of the 2016 market, non-grandfathered experience of Time Insurance Company and John Alden Life Insurance Company was reviewed together. This combined experience was used in order to develop an actuarially appropriate prediction of the market wide per member per month risk and standardized claim cost in 2016. The same experience basis is used for both the pricing methodology and the development of factors that will address the impact of our risk relative to the market and the impact this has on premium rates. This process is described in more detail below.

Experience Period: The experience period is claims incurred and premium earned from January 1, 2014 through December 31, 2014.

Paid Through Date: The date through which payments have been made on claims incurred during the experience period is February 28, 2015.

Premiums (Net of MLR Rebate) in Experience Period: In the Unified Rate Review Template, the earned premium prior to Medical Loss Ratio (MLR) rebates for the Calendar Year 2014 experience period was [REDACTED]. Earned premium was not adjusted for any reductions prescribed when calculating the MLR, such as taxes and assessments. The MLR rebates for the experience period are estimated at [REDACTED].

The financial actuarial team at Assurant Health estimates accrued premium refunds required under Federal Minimum Loss Ratio regulations for the Individual Medical and Group Medical insurance business. The team projects incurred claims, earned premiums, and other elements and applies adjustments as outlined in Federal laws and regulations. These projections are performed on a state and market level basis and recent claims experience is adjusted for estimated claims reserves on a state level basis.

Allowed and Incurred Claims During the Experience Period: In the Unified Rate Review Template, the amount of incurred claims processed through our claim system for the experience period 2014 is [REDACTED]. The best estimate of experience period claims incurred but not reported is [REDACTED]. The amount of allowed claims processed through our claim system for the experience period 2014 is [REDACTED]. The best estimate of experience period allowed claims incurred but not paid as of the paid through date shown above is [REDACTED]. Allowed claims are developed by subtracting ineligible charges and discounts from the total provider billed amount. Assurant Health has no capitation agreements.

The per member per month experience period allowed claims in our pricing methodology is based upon all Individual Medical non-grandfathered experience within the state for Assurant Health. The methodology is demonstrated in Appendix A. Experience for limited benefit plans was not included. All pricing components, including the base experience period data, are applied consistently across the single risk pool in the state and market for 2016.

Our financial actuarial team develops lag triangles for Individual Medical experience. These triangles are also separately developed for Medical and Prescription Drug Card coverage. Specific large claims that are part of our case management program are removed from the Medical triangles and reserved for separately. Historical averages are used in order to calculate monthly completion factors for the remaining claims. These completion factors were applied consistently to both allowed claims and paid claims.

4. Benefit Categories

Inpatient services are those received during a patient's hospital stay and are included in the

Inpatient Hospital Category. Outpatient services (e.g. lab tests, X-rays, and some surgical services) are those rendered by a facility within an outpatient setting. Professional services include primary care, specialist, therapy and other professional charges that are not included in facility fees. Other Medical services include charges for items that do not fall into the categories above, such as ambulance and durable medical equipment. The Other category is measured based upon distinct services or items provided. Retail and mail order pharmacy claims are included in the Prescription Drug category.

5. Projection Factors

Redacted

6. Credibility Manual Rate Development

Redacted

7. Credibility of Experience

Redacted

8. Paid to Allowed Ratio

Redacted

9. Risk Adjustment and Reinsurance

Redacted

10. Non-Benefit Expenses and Profit & Risk

Redacted

11. Projected Loss Ratio

Redacted

12. Single Risk Pool and Index Rate

The single risk pool reflects all covered lives for every non-grandfathered product/plan combination for this state and market.

The Index Rate is the estimated total allowed claims per member per month for all non-grandfathered plans for all essential health benefits within the state. This figure does not include adjustments for Reinsurance, Risk Adjustment transfers, or exchange user fees. To the best of our knowledge, there are no material covered benefits in excess of the Essential Health Benefits. Please see Appendix A for detail on the projected 2016 Index Rate calculation. Also,

please see the Market Adjusted Index Rate and Plan Adjusted Index Rate Explanation Sections below for details on how rates are calculated relative to the Index Rate. The experience period data includes the experience of transitional plans. However, as permitted by the Part III instructions, we have made an adjustment in the projection period to reflect metallic specific experience. This adjustment is explained above in further detail in the “Other Adjustments” section. As a result of this adjustment, no adjustment was needed to account for additional EHB’s for the non-single risk pool plans included in the experience period since the metallic only experience already includes all the EHB’s.

URRT vs. Pricing Methodology Differences: As noted earlier in the memorandum, our pricing methodology does not directly line up with the URRT methodology. The index rate in the experience period in Worksheet 1 may be slightly different than the index rate seen in Appendix A due to the inclusion of both TIC and JALIC experience. We strongly believe that including both entities’ experience results in a more actuarially appropriate rate for this state as it adds more state specific experience and provides more state specific credibility.

In addition, as described above in the “Credibility of Experience” section, we are making pooling adjustments to the experience period claims in this state. The URRT requires un-pooled experience and therefore the PMPM experience in the baseline period in Worksheet 1 will not line up directly with the experience in Appendix A.

13. Market Adjusted Index Rate

The Market Adjusted Index Rate is calculated as the Index Rate adjusted for all allowable market-wide modifiers defined in the market rating rules, 45 CFR Part 156, §156.80(d)(1). These adjustments include:

- Federal reinsurance program
- Risk adjustment
- Exchange user fee

Please see section 9 of this memo for a description of the reinsurance and risk adjustment. Please see section 10 of this memo for a description of the exchange user fee adjustment. The calculation of the Market Adjusted Index Rate can be found in Appendix A.

14. Plan Adjusted Index Rate

Redacted

15. Calibration

Redacted

16. Consumer Adjusted Premium Rate

Redacted

17. AV Metal Values

Redacted

18. AV Pricing Values

Redacted

19. Membership Projections

Redacted

20. Terminated Products

Redacted

21. Plan Type

All 2016 Individual Medical Plans will be PPO plans.

22. Warning Alerts

Redacted

23. Effective Rate Review Information

Redacted

24. Reliance

In developing this rate filing I relied upon information provided by others within my department, as well as on information provided by other departments within the organization. I have reviewed this information for reasonableness, and I consider it to be reliable.

25. Actuarial Certification

I am a member of the American Academy of Actuaries. To the best of my knowledge and judgment,

1. This rate filing is in compliance with the applicable laws and regulations concerning premium rate development in this state and the benefits are reasonable in relationship to premiums.
2. The projected index rate is:
 - a. In compliance with all applicable State and Federal Statutes and Regulations.
 - b. Developed in compliance with the Actuarial Standards of Practice.
 - c. Reasonable in relation to the benefits provided and the population anticipated to be

covered.

- d. Neither excessive nor deficient.
3. The index rate and only the allowable modifiers as described in 45 CFR 156.80(d)(1) and 45 CFR 156.80(d)(2) were used to generate plan level rates.
4. The percent of total premium that represents essential health benefits included in Worksheet 2, Sections III and IV were calculated in accordance with actuarial standards of practice. To the best of my knowledge, the percent of total premium that represents EHB's is 100%.
5. The HHS AV Calculator was used to determine the AV Metal Values for all plans shown in Worksheet 2 of the Part I Unified Rate Review Template except for those documented in this memorandum. The AV values for those documented in the memorandum were developed based on one of the acceptable alternative methods and are in accordance with generally accepted actuarial principles and methodologies.
6. The geographic rating factors reflect only differences in the costs of delivery and do not include differences for population morbidity by geographic area.



Brent Wiskirchen, FSA, MAAA
Sr. Associate Actuary – Reform Pricing
5/2015